MIZUHO
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WEEK AHEAD

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30-May-2024

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Economic Calendar

•Survey results from Bloomberg, as of 24 May 2024; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
27 May	JP	Coincident Index/Leading Index CI	Mar F	--	113.9/111.4
	GE	**IFO Business Climate/Expectations**	**May**	**90.0/90.5**	**89.4/89.9**
28 May	US	Conf. Board Consumer Confidence	May	96.0	97.0
	US	**Dallas Fed Mfg Activity**	**May**	**--**	**-14.5**
29 May	**US**	**Richmond Fed Mfg. Index**	**May**	**--**	**-7**
	US	Federal Reserve Releases Beige Book			
30 May	**US**	**Initial Jobless Claims**		**--**	**215k**
	US	**GDP Annualized QoQ**	**1Q S**	**1.2%**	**1.6%**
	US	Wholesale Inventories MoM	Apr P	--	-0.4%
	EZ	Consumer Confidence	May F	--	--
	EZ	Unemployment Rate	Apr	--	6.5%
31 May	**US**	**MNI Chicago PMI**	**May**	**40.8**	**37.9**
	US	PCE Deflator/Core YoY	Apr	2.7%/2.8%	2.7%/2.8%
	US	Personal Income/Spending	Apr	0.3%/0.3%	0.5%/0.8%
	EZ	**CPI Estimate/Core YoY**	**May**	**2.6%/2.8%**	**2.4%/2.7%**
	JP	Job-To-Applicant Ratio/Jobless Rate	Apr	1.3/2.6%	1.3/2.6%
	JP	**Industrial Production MoM**	**Apr P**	**1.5%**	**4.4%**
	JP	**Retail Sales YoY**	**Apr**	**1.9%**	**1.2%**

Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
27 May	CH	Industrial Profits YoY	Apr	--	-3.5%
28 May	**AU**	**Retail Sales MoM**	**Apr**	**0.2%**	**-0.4%**
	KR	**Retail Sales YoY**	**Apr**	**--**	**10.9%**
29 May	**AU**	**CPI YoY**	**Apr**	**3.4%**	**3.5%**
	VN	Trade Balance	May	-$700m	$680m
	VN	**Retail Sales YoY**	**May**	**--**	**9.0%**
	VN	Industrial Production YoY	May	--	6.3%
	VN	**CPI YoY**	**May**	**4.6%**	**4.4%**
30 May	**AU**	**Building Approvals MoM**	**Apr**	**1.4%**	**1.9%**
31 May	CH	Mfg/Non-Mfg PMI	May	50.4/51.4	50.4/51.2
	IN	Fiscal Deficit YTD INR Crore	Apr	--	--
	IN	**GDP YoY**	**1Q**	**6.7%**	**8.4%**
	KR	**Industrial Production YoY**	**Apr**	**4.4%**	**0.7%**
	TH	BoP Current Account Balance	Apr	--	$1082m
	TH	Exports/Imports YoY	Apr	--	-10.2%/5.2%
	TW	**GDP YoY**	**1Q P**	**6.5%**	**6.5%**
01 Jun	KR	Exports/Imports YoY	May	12.1%/3.1%	13.8%/5.4%

Week-in-brief: Under Pressure

- This week, US data showing resiliency was cast as reasons for "high for longer" alongside hawkish Fedspeak. A closer look appears to indicate that markets are clutching on excuses (such as less than standard PMI references) to **long USD**, given pre-existing inclinations of **UST yield spread advantage. Consequently, EM Asia remain pressured.**
- In EM-Asia, BI and BoK stood pat, in-line with our expectations. **BI noted that the last rate hike was sufficient to attract inflows, although intervention efforts to support IDR will continue.**
- As for the BoK, an upwards revision to 2024 GDP forecast (2.5%, prev: 2.1%) alongside dovish rhetoric that more confidence is needed on inflation's return to target imply no hurry to normalise policy.
- Down under, the RBA minutes noted the board wanting to avoid "excessive fine tuning" of policy, which could imply a diminished case for a hike even if inflation risks had "risen somewhat"; especially amid weak consumer spending. AUD underperformed EM-Asia peers.
- Joining in, the **THB also underperformed on fears of political instability** following the Constitutional Court agreement to hear a petition to dismiss PM Srettha, outweighing any cheer from the Q1 GDP upside. Meanwhile, the BSP warned of interventions to tame speculation, but stopped short of defending specific levels. The **SBV was also pressured by a VND which has been testing the upper limit of its trading range** and raise their 7-day reverse repo rate by 25bps to anchor stability.
- **For the upcoming week,** Vietnam's industrial production should remain resilient on the back of electronics recovery, while tourism continues to buoy retail sales. The firming economic recovery and elevated inflation could pave the way for a mid week **hike by SBV to stabilise the VND.**
- Meanwhile, at the end of the week, India's GDP still robust sub-7% growth on re-opening demand is both a product of base effects and bone fide economic thrust, but unrealistically (and unsustainably) low GDP deflator assumption remain a bugbear.
- Elsewhere, Thailand's Current Account surplus also on Friday is set to narrow as a wider trade deficit offsets improvement in tourism revenue on festivities. Regardless, the surplus is unlikely to absolve THB volatility from domestic political instability and fiscal risks.
- All in, a G3 data light week (save for US PCE deflator), the pressure on EM-Asia may not relent.

Thailand Current Account: Smaller Surplus

- Thailand's current account for April is expected to record **a smaller surplus from March** as the trade balance deficit widening is likely to dampen the improvement in tourist arrivals.
- Customs data indicate a MoM decline in export revenues likely on seasonal effects led by lower revenue from manufactured goods. Nonetheless, on a YoY basis, export revenue grew 6.8% YoY in USD terms underscoring a nascent, albeit bumpy recovery.
- The **services account is likely to post a larger surplus position** with both tourist arrivals and spending per person likely to benefit from Songkran festivities.
- On balance, while the current account surplus will aid the underlying fundamentals of the THB, it **does not absolve off the volatility resulting from domestic political instability and fiscal risks.**

India's Growth – Beyond Headlines

- **India's** Q1 (Q4 for FY23/24) GDP is more than the sum of its parts as it splits fervent India bulls from. For the casual observer it reveals **still robust sub-7% growth**, albeit following a blistering 8.4% YoY clip the previous quarter. The **cynical critic** will charge that this is a **concerning deceleration** underlining industrial cracks and consumer. The **optimistic cheer-leader** will celebrate India's **pack-leading shine** *looking past less flattering base effects.* Reconciling the two diametrically opposed views requires conditionality and context.
- The context is that *India suffered one of the worst pandemic output losses* after Philippines and Thailand.
- But has since ramped up on *public sector infrastructure* boost alongside *industrial output* fillip, accentuated by "China+1" tailwinds. And so, **re-opening demand revival has found a sweet spot** between *low-hanging base effects* and *bona fide economic thrust.*
- Nonetheless, **India bulls** are **overzealous**, *shrugging off cyclical risks* and *overlooking pre-conditions* to exploit structural growth wind-fall*.
- Above all, **"inflated" growth**** is the biggest bug-bear. Even as medium-term optimism is justified, **unrealistically** (and **unsustainably**) **low GDP deflator assumptions cast a pall**. In addition, the current growth buoyancy is compromised

* Widely argued, ,and mostly well-founded structural arguments for sustained medium-to-long term India growth optimism derive from demographic dividends, Middle Class boom , urbanization, and industrial catch-up.

** As we expound in an earlier publication: Mizuho Brief – India's Awkward Growth-Inflation Proposition, 2nd April 2024

RBI Dividends: Not Without Growth-Rupee Trade-Off

- Earlier this week, **the RBI's unexpectedly large dividend of INR2.11trln** constitutes **a fiscal bonus**. Compared to the INR850bn budgeted by the government, the INR1.26trln **fiscal windfall amounts to some 0.4% of GDP**.
- This may however have **varying growth, debt and rupee impact**; *depend on the exact option exercised with regards to deploying the excess cash.*

Option 1 – Debt/Deficit Reduction*: *Use the "bonus" cash in-lieu of debt* **to finance unchanged spending** will ***reduce the deficit*** and *required debt* issuance.

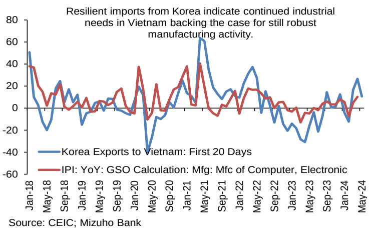
Option 2 – Spend: ***Spend the cash***, ***retaining*** about the same *deficit* (albeit with slightly higher growth) and unchanged **debt** issuance.

- With Option 1, **while growth does not derive any lift**, **rupee could get a confidence boost** from fiscal consolidation and debt reduction. In contrast, Option 2 will lift growth, but **possibly compromise rupee**. ***Especially***, *if* **RBI dividend bonanza** is *deemed an unsustainable cover for fiscal slack.* **Admittedly**, the impact will be **marginal**. But optics could matter as much as options.

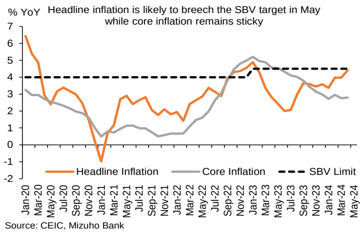
So **marginal rupee and bond support is tied to prudence**, especially **in the context of a "higher for longer" Fed**.

* Assumes the same growth outcome all else equal (given unchanged spending)

Vietnam: Stability Sought



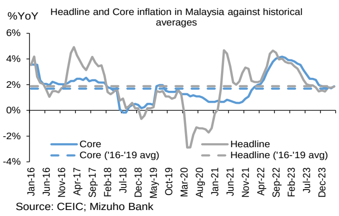
Source: CEIC; Mizuho Bank



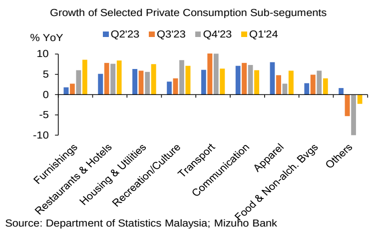
Source: CEIC, Mizuho Bank

- **Industrial production is expected to remain resilient** as semiconductor and electronic cycle recovery continues apace. In May, first 20 days of Korean exports to Vietnam showed continued to post a 10.5% YoY highlighting the continued needs of the industrial base in Vietnam.
- **Retail sales activity ought to remain buoyed** by the **strong tourist arrivals that has already exceeded pre-pandemic levels in 2019.**
- On the political front, Vietnam has appointed To Lam who was head of police and intelligence operations, as the new President. While the near term leadership vacuum has been addressed and the immediate impact on FDI is unlikely to be significant, **the threat of an ensuing domestic bureaucratic process paralysis and public investment slowdown remains.**
- Turning to inflation, **headline CPI is likely to breech the SBV's 4.5% mark on low base effects**, higher food prices and continued recreation related services inflation.
- That said, lower petrol prices provide a slight dampener on headline CPI.
- Firming economic recovery and elevated inflation may set the backdrop for the SBV to hike rates **to stabilise the VND which has been testing the upper limit of the SBV's trading range.**
- Specifically, we will keep a close watch for policy **rate hikes in the middle of next week which could even come prior to the economic data release.**

Post-Malaysia Q1 GDP & CPI: Encouraging



Source: CEIC; Mizuho Bank



Source: Department of Statistics Malaysia; Mizuho Bank

- Malaysia's **Q1 GDP upward revision** (from 3.9% to 4.2%) **was encouraging not only in the headline number, but in the details too**. In particular, services real growth was revised higher as private consumption accelerated to 4.7% YoY (Q4: 4.2%), suggesting that the services tax effective in Mar'24 did not deter consumers much.
- Within private consumption, consumption growth for discretionary items such as recreation & culture, restaurant and hotels have also held up and performed much better than necessities like food and apparel. Higher expenditures on leisure items is also reflected in healthy domestic tourism recovery, where expenditures are 33% higher in 2023 compared to a year ago. That 2023 expenditures are only at about 82.3% of 2019 levels suggests further room for growth. Nonetheless, it is also worth highlighting that outperformance this quarter could also in part be attributed to spending in preparation of Hari Raya festivities (which is about 2 weeks earlier this year compared to last year) spilling over to Q1.
- Regardless, the private consumption bright spot viewed against the backdrop of new credit card loans contracting since Aug'23 could suggest that Malaysians have both the ability and willingness to spend. Risk is that consumer sentiment trending down could mean some growth moderation in coming quarters.
- Another bright spot in the GDP release is also **the improvement in private GCFC**, which accelerated to 9.2% YoY (Q4: 4.0%), suggesting that private investments are returning. Public GCFC has consistently been growing at a faster pace compared to private GCFC (Q1: 11.5% YoY) in at least the past four quarters (since data was available) likely on the back of the public infrastructure push.
- Meanwhile, **inflation remains moderate** at 1.8% YoY. While the inflation is outlook is dependent on the subsidy rationalisation plan, details of the plan remain scant. Recent remarks by PM Anwar signalled that subsidies would start with diesel, but the details and implementation timeline were lacking. Regardless, the feedthrough to inflation is likely in the back of policymakers mind as PM Anwar remarked that "subsidy cuts should not burden the majority of the people".
- All in, the backdrop of resilient growth and contained price pressures should give BNM comfort in its current policy stance, which it has characterised as "supportive".

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	157.04	1.160	0.74%	154.50	~	158.50
EUR/USD	1.0824	-0.0022	-0.20%	1.072	~	1.090
USD/SGD	1.3512	0.004	0.30%	1.3450	~	1.3620
USD/THB	36.715	0.478	1.32%	36.40	~	37.00
USD/MYR	4.716	0.0293	0.63%	4.700	~	4.730
USD/IDR	15993	38	0.24%	15,950	~	16,100
JPY/SGD	0.8605	-0.004	-0.43%	0.849	~	0.882
AUD/USD	0.6607	-0.005	-0.72%	0.646	~	0.670
USD/INR	83.09	-0.281	-0.34%	82.9	~	83.5
USD/PHP	58.195	0.575	1.00%	57.0	~	58.5

^Weekly change.

FX: Sentence First, Verdict Later?

- This week's **USD surge may be attributed to hawkish jolts from Fed Speak and US data** (PMI surge and jobless claims dip).
- Closer scrutiny suggest hints of market seizing any excuse to long USD given pre-existing inclinations. USD buying looked pre-emptive and perhaps **overstepped the data-policy verdict**.
- Beyond overnight price action, the **pre-existing yield advantage of the USD** suggest a bias for more pronounced USD upside sensitivity. To be sure, elevated yield spreads is **not a conclusion for undervalued USD** predicting imminent rebound. it is instead an inclination of a tendency to exploit this advantage with a lower bar for bullish USD on policy/data triggers.
- Flanked by relative US economic outperformance conspiring with comparative Fed hawkish response bias. the USD is positioned for **rather uncharacteristic late Fed cycle strength relative to previous cycles.**

Collateral Damage in EM-Asia

- Inadvertently, a strong USD inflicts collateral damage as it compounds pain in EM-Asia from Fed pushback on cuts. In particular, as AXJ and EM Asia policy pressures feed off and into each other.
- The forced hikes for Bank Indonesia and SBV (not policy rate per se) and PHP sell off after a dovish hold by BSP being cases in point.
- Defacto hawkish bias may be the "sentence first" imposed on EM Asia FX and central banks.

Bond Yield (%)

27-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.918	9.3	4.469	4.9	Flattening
GER	3.066	8.6	2.586	7.2	Flattening
JPY	0.329	0.9	0.994	5.6	Steepening
SGD	3.405	9.4	3.260	7.7	Flattening
AUD	4.040	14.0	4.306	0.1	Flattening
GBP	4.463	17.2	4.255	12.9	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	5,267.84	-0.67
Nikkei (JP)	38,646.11	-0.36
EuroStoxx (EU)	5,008.13	-1.11
FTSE STI (SG)	3,312.97	-0.02
JKSE (ID)	7,222.38	-1.30
PSEI (PH)	6,619.89	0.02
KLCI (MY)	1,617.91	0.08
SET (TH)	1,364.43	-1.32
SENSEX (IN)	75,533.21	2.19
ASX (AU)	7,727.59	-1.11

UST: Over-reacting Bears?

- UST yields soared this week as markets appear to be looking for excuses to sell-off.
- Following from **higher exisiting homes prices and hawkish details in FOMC minutes being re-iterted, manufacturing and services PMI** outperforming aid a further climb in UST yields. 2Y yields return back above 4.9% and 10Y yields went above 4.6%.
- Given these outsized moves this week, **some paring back of the over-reactions is par for the course even if next week remains a data light week** with PCE deflator at the end of the week providing a reminder that it is not that far from the Fed's target.
- Consequently, while 2Y yields may look closer to test the 5% mark, such adventures are likely to remain shallow as the **risks tilted towards a slippage of 2Y UST yields towards 4.8% especially if the second print of US Q1 GDP is revised downwards**.
- On the longer end, 10Y UST yields is likely to remain below 4.65% as softer oil prices is likely to continue to restrain the follow through from any front end surge.

FX Brief:

1) JPY: With Japan CPI not a clear case for further hikes, buoyancy off 155 remains the base case though testing of 158 remain challenged by intervention fears.

2) EUR: Wage growth surprrising on the upside not denting June cuts imply a high bar to retake 1.09 while the lack of clarity beyond the June cut allow buoyancy off mid-1.07.

3) AUD: Softened towards 66 cents as CNH weakness feeds in alongside lower oil prices. Upcoming CPI affirming dis-inflation may allow sub-66 cents slippage.

4) CNH: Welcoming property stimulus no panacea for CNH woes as PBoC relents on daily fixing. This highlights the preference for stability rather than outright appreciation.

5) INR: Political jitters saw rupee weakness despite inflation indicators pointing to persistent RBI hawkish tendencies.

6) SGD: Softer EUR on Fed-ECB rate posturing divergence and uninspired CNH could see trading above 1.35 levels.

7) IDR: Continued hawkish Fed rhetoric could mean a more durable break above 16,000 again.

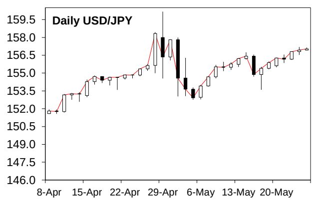
8) THB: Underperformed on domestic political stability concerns. Volatility to remain even as current account set to allow mild recovery for next week to slip back below mid-36.

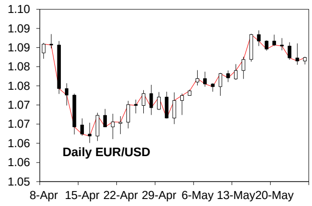
9) MYR: Hawkish Fed rhetoric and soft CNH could see durability above 4.70 handle.

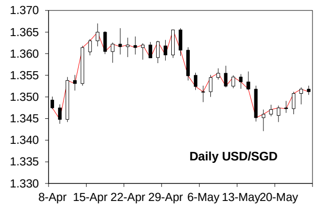
10) PHP: Could retain buoyancy above 58 levels given that BSP stuck to the rate cut rhetoric even as PHP broke the 58 handle.

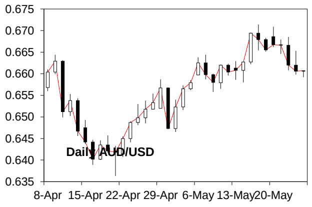
11) KRW: Underperformed as surging UST yields exploit yield gap advantage to offset BoK hold and semiconductor package support.

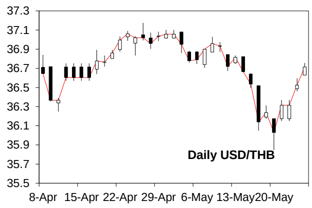
12) TWD: Aided by equity inflows alongside improving export orders. Yield gap pressures may return in the coming week alongside cross straits tensons with China.

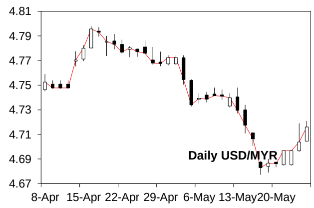


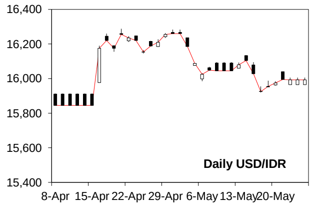


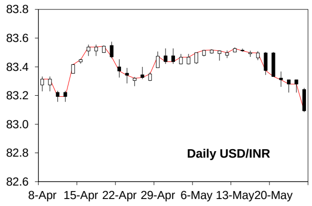


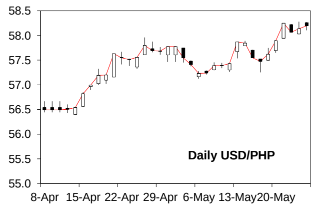


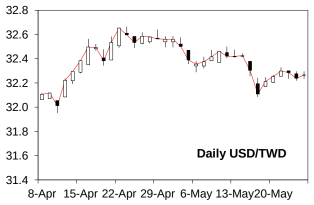


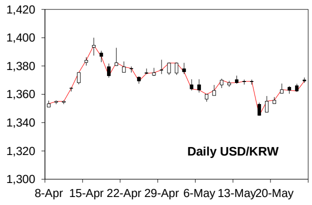


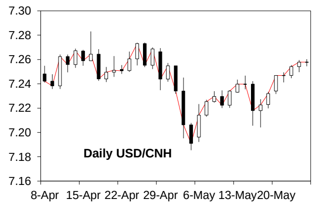












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